

# Notes to the summary financial statements

## 1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of the Company and all its subsidiaries (the "Group") for the year ended 31 December 2003.

The same accounting policies adopted in the 2002 annual accounts have been consistently applied except for adoption of the following new accounting policies in 2003:

- Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes"; and
- Lease out and lease back transactions.

Certain comparative figures have been restated and reclassified following adoption of the new accounting policies.

## 2 Remuneration of Members of the Board and the Executive Directorate

### A Remuneration of Members of the Board and the Executive Directorate

(i) The aggregate emoluments of the Members of the Board and the Executive Directorate of the Company disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were as follows:

<i>in HK\$ million</i>	2003	2002
Fees	2	2
Salaries, housing allowances and other benefits-in-kind	28	29
Variable remuneration related to performance	3	3
Retirement scheme contributions	4	4
	<b>37</b>	<b>38</b>

The above emoluments do not include realised gains on exercise of share options amounting to HK\$8.7 million (2002: HK\$0.2 million) in respect of certain Members of the Executive Directorate, which are disclosed under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

Non-executive directors of the Company are not appointed for a specific term but are subject (save as those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

(ii) The gross emoluments (excluding share option benefit) of the Members of the Board and the Members of the Executive Directorate were within the following bands:

Emoluments	2003 Number	2002 Number
HK\$0 – HK\$250,000	8	13
HK\$500,001 – HK\$1,000,000	2	1
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	3	1
HK\$4,500,001 – HK\$5,000,000	2	4
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$7,500,001 – HK\$8,000,000	–	1
	<b>17</b>	<b>21</b>

The information shown in the above table includes the five highest paid employees. The independent non-executive directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band. Emolument of the ex-Chairman, Jack C K So who resigned on 20 July 2003, is included under the highest remuneration band in both 2002 and 2003.

## 2 Remuneration of Members of the Board and the Executive Directorate (continued)

(iii) The remuneration details (excluding share option benefit) of the current members of the Executive Directorate are shown below:

in HK\$ million	2003			2002
	Base pay, allowance, retirement scheme contribution and benefits	Variable remuneration related to performance	Total	Total
Chief Executive Officer ("CEO")*	0.56	0.12	0.68	–
Finance Director#	3.88	0.42	4.30	3.96
Human Resources Director	4.03	0.42	4.45	4.49
Legal Director and Secretary	4.25	0.42	4.67	4.72
Operations Director	4.68	0.43	5.11	4.78
Project Director	4.22	0.43	4.65	4.72
Property Director	4.04	0.42	4.46	4.52
	25.66	2.66	28.32	27.19

\* Appointed in December 2003

# Appointed in February 2002

(iv) The CEO will be entitled to receive 700,000 shares in the Company (or their equivalent value in cash) on completion of his three-year contract (i.e. 30 November 2006). The final number of shares (or cash amount) delivered may be adjusted to reflect relevant changes (if any) in the Company's share capital after his appointment. This ensures that the CEO's compensation is closely tied to the Company's longer-term performance and aligns his interests with those of shareholders. In certain limited circumstances, the CEO may be entitled to receive some or all of the shares (or the cash amount) prior to completion of his contract.

The restricted shares were offered in order to provide a sufficiently competitive level of compensation and to ensure the CEO's total pay is more closely tied to the performance of the Company.

### B Share options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2003 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

#### (i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme"), Jack C K So (ex-Chairman) and each of the other Members of the Executive Directorate, except C K Chow and Lincoln K K Leong, were granted options on 20 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively. C K Chow and Lincoln K K Leong joined the Company on 1 December 2003 and 1 February 2002 respectively and are not beneficiaries of the Pre-IPO Option Scheme.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 40,000 shares in the case of the ex-Chairman and at least 23,000 shares in the case of other Members of the Executive Directorate, and (ii) at all times after 26 October 2002, at least 80,000 shares in the case of the ex-Chairman and at least 46,000 shares in the case of other Members of the Executive Directorate.

#### (ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme ("New Option Scheme"), Lincoln K K Leong, a Member of the Executive Directorate, was granted option to acquire 1,066,000 shares on 1 August 2003.

The options will be vested in three equal annual instalments and under the vesting terms of the New Option Scheme, the grantee must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares.

### 3 Segmental information

The results of major business activities are summarised below:

in HK\$ million	Turnover		Contribution to profit	
	2003	2002	2003	2002
				(Note 1)
Railway operations	5,489	5,720	345	577
Station commercial and other businesses	1,117	979	657	688
Property ownership and management	988	987	786	819
Property developments	–	–	5,369	3,755
	<b>7,594</b>	<b>7,686</b>	<b>7,157</b>	<b>5,839</b>
Corporate expenses net of other income			(2,707)	(2,260)
Profit for the year			<b>4,450</b>	3,579

No geographical analysis is shown as substantially all the principal activities of the Company and its subsidiaries are carried out in Hong Kong.

### 4 Fixed assets and railway construction in progress

#### A Fixed assets

in HK\$ million	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2003	10,267	1,638	45,092	52,519	2,454	111,970
Additions	3,626	52	–	66	1,148	4,892
Disposals/ Write-offs	–	–	(11)	(265)	(4)	(280)
Surplus/(Deficit) on revaluation (Note 6)	276	(23)	–	–	–	253
Deficit on revaluation written off to Profit and Loss Account	–	(69)	–	–	–	(69)
Reclassification	–	–	268	(268)	–	–
Other assets commissioned	–	–	391	2,267	(2,658)	–
At 31 December 2003	14,169	1,598	45,740	54,319	940	116,766
At Cost	–	731	45,740	54,319	940	101,730
At 31 December 2003 Valuation	14,169	867	–	–	–	15,036
Aggregate depreciation						
At 1 January 2003	–	84	2,324	15,292	–	17,700
Charge for the year	–	35	374	1,993	–	2,402
Written back on disposal	–	–	(3)	(233)	–	(236)
Written back on revaluation (Note 6)	–	(21)	–	–	–	(21)
Reclassification	–	–	10	(10)	–	–
At 31 December 2003	–	98	2,705	17,042	–	19,845
<b>Net book value at 31 December 2003</b>	<b>14,169</b>	<b>1,500</b>	<b>43,035</b>	<b>37,277</b>	<b>940</b>	<b>96,921</b>
Net book value at 31 December 2002	10,267	1,554	42,768	37,227	2,454	94,270

#### B Railway construction in progress

in HK\$ million	Balance at 1 Jan 2003	Transferred from deferred expenditure	Expenditure/ (Government grant)	Balance at 31 Dec 2003
<b>Tseung Kwan O Extension Further Capital Works Project</b>	<b>43</b>	<b>–</b>	<b>1</b>	<b>44</b>
<b>Penny's Bay Rail Link Project</b>	<b>285</b>	<b>–</b>	<b>598</b>	<b>883</b>
Government grant	(219)	–	(664)	(883)
	<b>66</b>	<b>–</b>	<b>(66)</b>	<b>–</b>
<b>Tung Chung Cable Car Project</b>	<b>–</b>	<b>17</b>	<b>120</b>	<b>137</b>
<b>Total</b>	<b>109</b>	<b>17</b>	<b>55</b>	<b>181</b>

#### 4 Fixed assets and railway construction in progress (continued)

During the year, cash dividends waived by the Government amounting to HK\$675 million (2002: HK\$219 million) have been offset against the construction costs of Penny's Bay Rail Link Project. The excess of the cash dividends waived over the construction costs amounting to HK\$11 million (2002: Nil) has been included in creditors, accrued charges and provisions.

#### 5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2002 and 2003 comprise:

in HK\$ million	2003		2002	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	3,099	3,091	–	–
HK dollar retail bonds	–	–	3,500	3,553
	<b>3,099</b>	<b>3,091</b>	3,500	3,553

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

During the year, the Group redeemed HK\$500 million (2002: Nil) unlisted Hong Kong dollar notes upon maturity.

#### 6 Reserves

in HK\$ million	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
<b>2003</b>						
Balance as at 1 January 2003 as previously reported	1,563	27,188	6,406	24	16,487	51,668
Prior period adjustment in respect of deferred tax	–	–	–	–	(3,253)	(3,253)
Balance as at 1 January 2003 as restated	1,563	27,188	6,406	24	13,234	48,415
Employee share options exercised	78	–	–	–	–	78
Shares issued under Scrip Dividend Schemes	968	–	–	–	–	968
Dividends paid	–	–	–	–	(2,178)	(2,178)
Surplus/(Deficits) on revaluation, net of deferred tax	–	–	276	(6)	–	270
Profit for the year	–	–	–	–	4,450	4,450
Balance as at 31 December 2003	<b>2,609</b>	<b>27,188</b>	<b>6,682</b>	<b>18</b>	<b>15,506</b>	<b>52,003</b>
<b>2002</b>						
Balance as at 1 January 2002 as previously reported	564	27,188	6,518	116	14,407	48,793
Prior period adjustment in respect of deferred tax	–	–	–	–	(2,620)	(2,620)
Balance as at 1 January 2002 as restated	564	27,188	6,518	116	11,787	46,173
Employee share options exercised	33	–	–	–	–	33
Shares issued under Scrip Dividend Schemes	966	–	–	–	–	966
Dividends paid	–	–	–	–	(2,132)	(2,132)
Deficit on revaluations	–	–	(112)	(92)	–	(204)
Profit for the year (as restated)	–	–	–	–	3,579	3,579
Balance as at 31 December 2002	1,563	27,188	6,406	24	13,234	48,415

#### 7 Other information

This summary financial statements is only a summary of information in the Group's 2003 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2003 Annual Report is available in electronic form on the Company's website at [www.mtr.com.hk](http://www.mtr.com.hk). A printed copy of the 2003 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed in the inside back cover of this Summary Report.